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SUBJECT: Mongolia Scen setter for Codel Payne

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11. (U) We and the Mongolian Government very much look forward to your visit, and to the initiation of the House Democracy Assistance Commission's program of exchange with the State Great Hural. The historic 2005 visits of Speaker Hastert and the President and First Lady underlined the increasingly close bilateral relationship. Despite the separation in distance and economic levels, a July 2004 joint presidential statement noted that Mongolia and the United States are united by a "comprehensive partnership based on shared values and common strategic interests." Beyond the official phrases, there is much in Mongolians' open, friendly and informal style, and rugged sense of individual self-reliance fostered by nomadic life on the steppe which appeals to Americans. With 2.6 million people spread over an area the size of Alaska, much of Mongolia's varied scenery resembles the western United States. You'll get a small taste of that scenery at your hotel, which sits in a semi-rural area on the outskirts of Ulaanbaatar.

Economics: Things Are Looking Good

12. (SBU) Mongolia's economy has boomed since 2004, with growth rates from 7-10%. Increased mining operations and high minerals prices have been part of the reason, but favorable weather has helped herders and services like tourism have grown strongly. Nevertheless, while some Mongolians are doing very well, about a third of the population remains below the poverty line. Mongolia's politicians have been blessed with rapidly rising government revenues, which they have begun to fling at voters in the form of cash handouts to every child and to newlywed couples, as well as a trebling of infrastructure spending this year. The budget this year rose 33% from that for 2006.

13. (SBU) Some of those increased revenues came from a confiscatory Windfall Profits Tax law on copper and gold sales abruptly passed last year, a measure which spooked foreign mining investors. Adding to the discomfort was a new law which allows the government to take an equity share of 34-50% in mines located on "strategic deposits" as defined by the government. However, Rio Tinto and the Canadian company Ivanhoe have struck a tentative bargain this year on the world class Oyu Tolgoi copper mine, which has raised hopes that deals can still be done. The U.S. has a key interest in the issue, since the mining sector is a major factor for Mongolia's future -- and it provides the main prospects for either new U.S. investment, through companies like Peabody coal or Phelps Dodge, or product exports, like those of Caterpillar.

14. (SBU) The next parliamentary elections will take place in late June 2008 (and the presidential election will follow in May 2009). This thought is never far from the mind of Mongolian politicians, as is the reality that the outcome may well be similar to the hung parliament which resulted from the June 2004 elections. Meanwhile, the Democratic Party, Mongolia's fractious major opposition party, has had fun and a good deal of success in recent months in helping to widen and make more visible the divisions in the current coalition government. The governing coalition is an unwieldy collection of three very small parties and the Mongolian People's Revolutionary Party (MPRP), the social democratic descendant of the former Communist party.

15. (SBU) The latest victim was the Speaker. Ts. Nyamdorj survived a no confidence vote on June 7, but was embarrassed by the fact that at least 11 government MPs voted against him, including at least 5 from his own MPRP. His resignation was accepted by Parliament on June 14. Vice Speaker Lundeejantsan was nominated as the new Speaker by the MPRP, and confirmed as Speaker on June 19. Earlier in the year, Democrats successfully split off enough government MPs to oust an MPRP minister and a minor party minister. Before you visit, Emergency Minister Otgonbayar, a minor party MP, may resign or be forced out as the result of the June 15 crash of a helicopter which killed 15 firefighting personnel.

16. (SBU) The MPRP, which is languishing in opinion polls, doesn't seem to have gained much public credit for the large new social welfare programs or sharply increased civil service salaries. Corruption scandals and the visibility in recent months of the feuds within the coalition government and MPRP haven't helped. Odds are

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the government will hang on until the next election, but Prime Minister Enkhbold looks to be the fall guy if, as seems likely, the MPRP fares poorly in June 2008. President Enkhbayar, who anointed Enkhbold his successor as MPRP chairman, is dismayed at the MPRP's slump in the polls, and by all accounts unhappy with the PM. Enkhbayar also has an election to think about: he is eligible to run for a second term in May 2009 but, under the Constitution, must be nominated by a political party with seats in parliament, i.e., by the MPRP. While Enkhbayar had to resign his party membership before becoming president, that makes him a very interested spectator of the MPRP's travails. Enkhbayar's own popularity, however, has remained relatively high, and he actively works the countryside, pressing the flesh.

A Closer Look at Parliament

17. (U) The State Great Hural's 76 MPs represent seven different political parties. Only the MPRP and Democratic Party have more than four MPs; the MPRP by itself has 39, and the Democratic Party has 26 (including 3 nominal independents). The MPs were elected in 2004 from single-member districts by a first-pass-the-post system. Twenty-one (28%) of the MPs represent constituencies in the capital, a proportion that should rise when redistricting is done this fall, given that 40% of Mongolia's population lives in Ulaanbaatar. At present, MPs outside the capital represent on average 30,000 residents spread over constituencies just slightly smaller than Maryland. Visits to constituents typically involve prolonged journeys to tiny communities and nomadic herders over rutted dirt roads winding across the steppe.

18. (U) In late 2005, Parliament significantly changed the rules for the next elections. In June 2008, MPs will be elected from multi-member districts, with 2-3 MPs representing each of the 20 aimags (provinces) and 9 districts of Ulaanbaatar. Voters will mark as many choices as there are MPs for the constituency. Parliament also approved a requirement that 30% of candidates nominated by parties be women. There are some indications that one or both provisions may be revised in the fall parliament session, as the MPRP is starting to believe it could suffer large losses on a party line vote in the multi-member constituencies, and male politicians

of all parties are complaining about an alleged dearth of qualified female candidates. If kept, the move to multi-member constituencies will increase the challenge of connecting to voters, and may give a strong advantage to those who start the contest well-known throughout the whole area.

¶9. (U) Parliament normally sits in two sessions each year: the fall session, from early October to the Tsagaan Sar (Mongolian New Year's) holiday in late January/early February, during which the budget is adopted; and the spring session, from early April until the Naadam holiday in mid July. MPs are all resident in Ulaanbaatar, and many venture back to their constituencies but once or twice a year. MPs have one paid staffer in their constituency and one at Parliament. Only the MPRP Caucus has government-paid legislative staffers -- 19, or 1 for every 2 MPs elected under the MPRP banner. Of the 38 other MPRPs, 34 were elected in 2004 under the banner of a subsequently-dissolved electoral coalition. Legally, these MPs are all technically "independents." While the Democrats gained the right to form a party "council" in Parliament under a deal struck with the MPRP in 2006, the fact they don't have a "caucus" deprives them of government-paid staff, though the Democratic Party itself has scraped together funds for a handful of staffers.

¶10. (SBU) During the 2000-2004 Parliament, the MPRP held 72 out of 76 seats, the quirk of a closely-divided electorate where opposition votes were split among a number of candidates. Needless to say, then MPRP Prime Minister Enkhbayar (the current President) had little trouble with a restive Parliament. The current, more evenly-split legislature has meant a much more lively session, for good and for ill. The mining legislation which eroded investor confidence in 2006 was the result of cross-party populist sentiment the government was hard-pressed to resist, and big increases in social welfare benefits have been the result of a bidding war, with the MPRP and the Democrats competing to see who can promise the voters more money.

¶11. (U) Under a USAID grant, IRI has worked with the current Parliament to strengthen the operations of standing committees and to institute ethics legislation. These remain works in progress,

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and HDAC's efforts should provide new impetus. Of the seven parliamentary standing committees, three have adopted rules of procedure which are based on the U.S. House of Representatives' Committee on Agriculture rules. With close support from IRI, two committees have held open hearings with witnesses (on mining legislation, in February 2006; and air pollution in Ulaanbaatar, in February 2007).

¶12. (SBU) Corruption is a growing problem in Mongolia, and the public is generally cynical about the fact that so many MPs and Cabinet Ministers have business interests (often in flagrant violation of conflict of interest norms). The current session of Parliament, which got bogged down in the travails of Speaker Nyamdorj, has ethics legislation on its lengthy "to do" list, and should be encouraged to pass it. The legislation was put aside last year on the sensible basis that it interacted with the major anti-corruption law the State Great Hural adopted in July 2006, and Parliament first needed to pass that act. By June 15, the new independent Anti-Corruption Agency established by the 2006 law should have received the first asset and income disclosure forms from MPs and other government officials. The forms for MPs and senior government officials are supposed to be made public. MPs previously had to file a form, but it was kept unexamined in the Parliament Secretariat, and most reportedly never even bothered to submit the document.

Mongolia's Closest Third Neighbor

¶13. (SBU) Despite the very active domestic political scene, foreign policy is not a subject of dispute. Mongolian politicians of all stripes agree on the wisdom of the "third neighbor" policy and on close relations with the U.S. The United States has pride of place among Mongolia's "third neighbors," an elastic category that also

includes South Korea, Japan, and Europe. The third neighbor concept is Mongolia's effort to escape from the distinct geopolitical disadvantage it suffers as a landlocked state wedged between the twin giants of Russia and China. Mongolia is careful to remain on cordial terms with both its real neighbors, but historical wariness about Chinese domination is not far below the surface, and there is some resentment about the rapid Russian pullout in the early 1990s which led to a sharp depression, resentment which has bubbled to the surface more now that the Russians have made a heavy-handed reappearance trying to gain special access to Mongolia's mineral deposits. Mongolia aims to build relationships as widely as it can -- one reason it hosted an Organization for Security and Cooperation in Europe (OSCE) meeting June 11-12, and why it hopes for U.S. support to join APEC and NATO's Partnership for Peace.

Mongolian Warriors Stride the World -- As Peacekeepers

¶14. (SBU) The day before you arrive, an 8th rotation of 130 Mongolian soldiers will depart for Iraq. The initial deployments to Iraq and Afghanistan were made when Enkhbayar was Prime Minister in 2003, and he remains a strong supporter of these and other peacekeeping deployments. The ongoing shift of Mongolia's military to focus on international peacekeeping has helped raise Mongolia's political profile with a range of nations -- and has helped bring the Mongolian military much-needed cash. Some 250 Mongolian troops have guarded the UN war crimes tribunal in Sierra Leone since late 2005, and two Mongolian detachments have also served under Belgian command in Kosovo. For the second year in a row, Mongolia will host the U.S.-supported multinational peacekeeping training exercise this August. New PACOM commander Admiral Keating has already said he'll come for the closing of the "Khaan Quest 2007" exercise.

¶15. (SBU) The decision on the 8th rotation, as for the 7th rotation last September, came down to the wire. This was not so much due to Mongolian angst about Iraq per se as it was due to concern about the increasing dangers faced by Mongolian troops at Camp Echo south of Baghdad, where they provide force protection for 900 Polish troops of the Multinational Force. Rocket and mortar attacks by insurgents have become increasingly common, and Prime Minister Enkhbold appears to have not wanted to be politically exposed should injuries be suffered during a new detachment. Political safety came in sharing that decision. On June 22, the National Security Council (President, Speaker and Prime Minister) recommended that the Cabinet send an 8th rotation, rather than scale back to a handful of staff officers, as Mongolia once planned to do early this year. After President Bush phoned President Enkhbayar in early March, the 7th

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rotation was extended by three months to allow time to train the next rotation. The 8th rotation will have 30 more soldiers than the one it replaces, and will include snipers, the better to counter the greater insurgent action.

President Enkhbayar Is Going to Washington

¶16. (SBU) During the early March phone call, President Bush extended an invitation to President Enkhbayar at a convenient time this year. The White House, which did not announce this invitation (although the GOM did), is currently considering Mongolia's proposal for an October visit. Early this year, President Enkhbayar won the wrestling match with PM Enkhbold as to who would sign the Millennium Challenge Account Compact agreement. Signing the Compact appears to be an essential element of his proposed visit to the U.S. MCC expects to fund the compact with FY 2008 money, making President Enkhbayar a very interested observer of the Congressional budget process this year. The substantive work on the \$150-175 million compact itself -- focusing on expanding rail capacity, preventive health, vocational education, and property rights -- is drawing to a close. The first Congressional notification period started June 15. A Mongolian team will visit Washington in mid-July to negotiate the language of the actual compact.

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